

AUDITING PROCEDURES REPORT

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Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Charter Township of Mount Morris</u>	County Genesee
Audit Date March 31, 2005	Opinion Date July 27, 2005	Date Accountant Report Submitted To State: September 30, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 27400 Northwestern Hwy.	City Southfield	State MI	ZIP 48034
Accountant Signature 			

Charter Township of Mount Morris Genesee County, Michigan

**Financial Report
with Supplemental Information
March 31, 2005**

Charter Township of Mount Morris

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Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Independent Auditor's Report

To the Township Board
Charter Township of Mount Morris
Genesee County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Mount Morris as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Mount Morris' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Mt. Morris as of March 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Mt. Morris' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

To the Township Council
Charter Township of Mount Morris
Genesee County, Michigan

As described in Note 12, the Township has fully implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of April 1, 2004. In adopting this statement, the financial statements now include a management's discussion and analysis and government-wide full accrual financial statements.

Plante & Moran, PLLC

July 27, 2005

Charter Township of Mount Morris

Management's Discussion and Analysis

Our discussion and analysis of the Township of Mount Morris' financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2005. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2005:

- The property tax millage rates were adjusted as of December 1, 2004 by increasing the general operating millage from 2.54 mills to 3.54 mills, and eliminating the debt millage of 2.50 mills. This increased the property taxes allocated to the General Fund, but decreased the property taxes allocated to the General Debt Service Fund.
- Overall revenues decreased from the prior year primarily as a result of overall decrease in the property tax millage, state-shared revenue decrease of approximately 2.4 percent, reduced federal grants, and a reduction in interest earnings.
- To combat the decreased revenue sources, the Township closely monitored its spending this year; as a result, total expenditures increased only 1.3 percent even with the large increases in health care and pension costs.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

Charter Township of Mount Morris

Management's Discussion and Analysis (Continued)

Governmental Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior year:

	2004	2005	Change	Percent
Assets				
Current assets	\$ 3,830,927	\$ 3,918,739	\$ 87,812	2.3
Noncurrent assets	<u>3,876,963</u>	<u>3,823,081</u>	<u>(53,882)</u>	(1.4)
Total assets	7,707,890	7,741,820	33,930	0.4
Liabilities				
Current liabilities	1,013,385	866,790	(146,595)	(14.5)
Long-term liabilities	<u>739,522</u>	<u>412,129</u>	<u>(327,393)</u>	(44.3)
Total liabilities	<u>1,752,907</u>	<u>1,278,919</u>	<u>(473,988)</u>	(27.0)
Net Assets				
Invested in capital assets -				
Net of related debt	3,088,830	3,334,374	245,544	7.9
Restricted	394,307	316,871	(77,436)	(19.6)
Unrestricted (deficit)	<u>2,471,846</u>	<u>2,811,656</u>	<u>339,810</u>	13.7
Total net assets	<u>\$ 5,954,983</u>	<u>\$ 6,462,901</u>	<u>\$ 507,918</u>	8.5

Charter Township of Mount Morris

Management's Discussion and Analysis (Continued)

	Governmental Activities <u>June 30, 2005</u>
Revenue	
Program revenue:	
Charges for services	\$ 981,519
Operating grants and contributions	266,356
General revenue:	
Property taxes	3,568,797
State-shared revenue	2,443,487
Investment earnings	21,467
Franchise fees	210,455
Other revenue	<u>13,801</u>
Total revenue	7,505,882
Program Expenses	
General government	1,752,962
Police and fire	4,382,320
Building inspection	246,245
Public services	512,308
Community assistance	2,486
Planning and zoning	16,498
Senior activities	63,386
Interest on long-term debt	<u>21,759</u>
Total program expenses	<u>6,997,964</u>
Change in Net Assets	<u>\$ 507,918</u>

The governmental net assets increased 8.5 percent from a year ago - increasing from \$5,955,000 to \$6,463,000.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by \$339,810 for the governmental activities. This represents an increase of approximately 14 percent. The current level of unrestricted net assets for our governmental activities stands at \$2,811,656, or about 40 percent of expenditures.

Charter Township of Mount Morris

Management's Discussion and Analysis (Continued)

Though overall revenues were down from the prior year mainly due to decreased property taxes and federal grant revenues, the Township was still able to increase net assets by approximately \$508,000. This increase was mainly due to the Township holding overall expenditures down even with the large increases in health care and pension costs. The Township held expenditures down by closely monitoring its spending in all other areas, including reducing overall salary costs.

Business-type Activities

The Township's business-type activities consist of the Water and Sewer Fund and the Refuse Collection Fund. System revenues are primarily from fees paid by customers based on use. The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior year:

	2004	2005	Change	Percent
Assets				
Current assets	\$ 7,828,170	\$ 7,327,597	\$ (500,573)	(6.4)
Noncurrent assets	<u>16,511,386</u>	<u>16,066,153</u>	<u>(445,233)</u>	(2.7)
Total assets	24,339,556	23,393,750	(945,806)	(3.9)
Liabilities				
Current liabilities	1,498,738	1,490,556	(8,182)	(0.5)
Long-term liabilities	<u>4,560,998</u>	<u>4,032,332</u>	<u>(528,666)</u>	(11.6)
Total liabilities	<u>6,059,736</u>	<u>5,522,888</u>	<u>(536,848)</u>	(8.9)
Net Assets				
Invested in capital assets -				
Net of related debt	11,305,548	11,505,155	199,607	1.8
Restricted	115,116	1,039	(114,077)	(99.1)
Unrestricted (deficit)	<u>6,859,156</u>	<u>6,364,668</u>	<u>(494,488)</u>	(7.2)
Total net assets	<u>\$ 18,279,820</u>	<u>\$ 17,870,862</u>	<u>\$ (408,958)</u>	(2.2)

Charter Township of Mount Morris

Management's Discussion and Analysis (Continued)

	2004	2005	Change	Percent
Revenue				
Charges for services	\$ 2,966,563	\$ 2,972,359	\$ 5,796	0.2
Operating expenses other than depreciation	(2,945,917)	(2,929,514)	16,403	(0.6)
Depreciation	<u>(320,666)</u>	<u>(330,117)</u>	<u>(9,451)</u>	2.9
Operating loss	(300,020)	(287,272)	12,748	(4.2)
Interest income	60,993	87,469	26,476	43.4
Interest expense	(311,117)	(273,565)	37,552	(12.1)
Capital contributions	181,490	64,410	(117,080)	(64.5)
Transfers from other funds	<u>800,000</u>	<u>-</u>	<u>(800,000)</u>	(100.0)
Change in Net Assets	<u>\$ 431,346</u>	<u>\$ (408,958)</u>	<u>\$ (840,304)</u>	(194.8)

The business-type activities net assets decreased approximately 2 percent from a year ago - decreasing from \$18,280,000 to \$17,871,000. Net assets decreased from last year due to there not being a transfer from the governmental activity funds similar to prior year.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, decreased by \$494,000 for the business-type activities. This represents a decrease of approximately 7 percent. The current level of unrestricted net assets for our business-type activities stands at \$6,365,000.

Revenues increased slightly by approximately \$6,000. Expenses decreased by about \$45,000 during the year. Decreases were led by a \$38,000 decrease in interest expense related to debt of the fund.

The Township's Funds

Our analysis of the Township's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2005 include the General Fund, the Police Fund, and the Fire Fund.

Charter Township of Mount Morris

Management's Discussion and Analysis (Continued)

The General Fund pays for most of the Township's administrative governmental services including the supervisor, treasurer, and clerk's offices. The Police and Fire Funds record the majority of the revenues and expenditures related to the Township's public safety activities. These two services are partially supported by special Police and Fire Operation millages which provide approximately 37 percent of the operating expenses of the Police Fund and 62 percent of the operating expenses of the Fire Fund. Transfer of funds from the General Fund, grant income, and other income provide the remaining funds to cover expenditures recorded in the Police and Fire Funds. Total operating expenditures of the Police Fund and Fire Fund in 2005 were approximately \$3.5 million and \$880,000, respectively. Combined, Police and Fire account for 61 percent of total governmental expenses.

General Fund Budgetary Highlights

Over the course of the year, the Township amended the budget to take into account events during the year. The most significant change was to increase the estimated property tax revenue by \$325,000 due to the increase in the general operating millage by 1.0 mills offset by a reduction in anticipated transfers from other funds by \$167,000. The General Fund departments overall stayed below budget, resulting in total expenditures \$165,000 below budget.

Capital Asset and Debt Administration

At the end of 2005, the Township had approximately \$19,889,000 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines. Investments in technology, protective equipment, and other public safety items were made throughout 2005 to improve the operations of the police and fire departments.

Economic Factors and Next Year's Budgets and Rates

The Township's budget for next year calls for a freeze on property tax rates. This can be accomplished because of the close monitoring of expenses. However, any reduction in state revenue sharing would have a negative impact on this upcoming year's income. Because of this impact and the impact of Proposal A, the Township needs to continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions.

Charter Township of Mount Morris

Management's Discussion and Analysis (Continued)

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

Charter Township of Mount Morris

Statement of Net Assets March 31, 2005

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and investments (Note 3)	\$ 2,266,138	\$ 6,337,536	\$ 8,603,674
Receivables:			
Taxes	969,591	943,660	1,913,251
Due from other governmental units	574,602	3,200	577,802
Internal balances	(42,162)	42,162	-
Inventories	6,818	-	6,818
Prepaid costs and other assets	143,752	-	143,752
Restricted assets (Note 4)	-	1,039	1,039
Capital assets - Net (Note 5):			
Nondepreciable	200,324	-	200,324
Depreciable	3,622,757	16,066,153	19,688,910
Total assets	7,741,820	23,393,750	31,135,570
Liabilities			
Bank overdraft (Note 3)	42,804	-	42,804
Accounts payable	130,854	426,239	557,093
Accrued and other liabilities	64,220	4,918	69,138
Due to other governmental units	136,474	-	136,474
Deferred revenue (Note 6)	19,244	530,733	549,977
Noncurrent liabilities (Note 8):			
Due within one year	473,194	528,666	1,001,860
Due in more than one year	412,129	4,032,332	4,444,461
Total liabilities	1,278,919	5,522,888	6,801,807
Net Assets			
Invested in capital assets - Net of related debt	3,334,374	11,505,155	14,839,529
Restricted:			
Housing commission	67,380	-	67,380
Building permits	24,182	-	24,182
Drug law enforcement	79,217	-	79,217
Police	111,158	-	111,158
Fire	34,934	-	34,934
Water and sewer construction	-	1,039	1,039
Unrestricted	2,811,656	6,364,668	9,176,324
Total net assets	\$ 6,462,901	\$ 17,870,862	\$ 24,333,763

Charter Township of Mount Morris

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,752,962	\$ 300,444	\$ -	\$ -
Police and fire	4,382,320	519,482	152,955	-
Building inspections	246,245	84,185	-	-
Public services (roads, street lights, etc.)	512,308	77,408	-	-
Community assistance (CDBG and housing)	2,486	-	113,401	-
Planning and zoning	16,498	-	-	-
Senior activities	63,386	-	-	-
Interest on long-term debt	21,759	-	-	-
Total governmental activities	6,997,964	981,519	266,356	-
Business-type activities:				
Water and sewer	2,734,647	2,177,806	-	64,410
Refuse	798,549	794,553	-	-
Total business-type activities	3,533,196	2,972,359	-	64,410
Total primary government	<u>\$ 10,531,160</u>	<u>\$ 3,953,878</u>	<u>\$ 266,356</u>	<u>\$ 64,410</u>

General revenues:

Property taxes
State-shared revenues
Investment earnings
Cable franchise fees
Miscellaneous

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Statement of Activities
Year Ended March 31, 2005

Net (Expense) Revenue and Changes in Net Assets

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (1,452,518)	\$ -	\$ (1,452,518)
(3,709,883)	-	(3,709,883)
(162,060)	-	(162,060)
(434,900)	-	(434,900)
110,915	-	110,915
(16,498)	-	(16,498)
(63,386)	-	(63,386)
(21,759)	-	(21,759)
(5,750,089)	-	(5,750,089)
-	(492,431)	(492,431)
-	(3,996)	(3,996)
-	(496,427)	(496,427)
(5,750,089)	(496,427)	(6,246,516)
3,568,797	-	3,568,797
2,443,487	-	2,443,487
21,467	87,469	108,936
210,455	-	210,455
13,801	-	13,801
6,258,007	87,469	6,345,476
507,918	(408,958)	98,960
5,954,983	18,279,820	24,234,803
<u>\$ 6,462,901</u>	<u>\$ 17,870,862</u>	<u>\$ 24,333,763</u>

Charter Township of Mount Morris

Governmental Funds Balance Sheet March 31, 2005

	General Fund	Police Fund	Fire Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 2,127,377	\$ -	\$ -	\$ 138,761	\$ 2,266,138
Receivables:					
Property taxes	895,746	-	-	-	895,746
Other governmental units	419,169	-	-	-	419,169
Other	-	16,108	-	57,737	73,845
Prepaid costs and other assets	114,356	-	-	29,397	143,753
Due from other funds (Note 7)	77,038	176,674	75,589	6,460	335,761
Inventories	6,818	-	-	-	6,818
Total assets	<u>\$ 3,640,504</u>	<u>\$ 192,782</u>	<u>\$ 75,589</u>	<u>\$ 232,355</u>	<u>\$ 4,141,230</u>
Liabilities and Fund Balances					
Liabilities					
Bank overdrafts (Note 3)	\$ -	\$ 15,425	\$ 27,379	\$ -	\$ 42,804
Accounts payable	118,343	1,175	11,097	239	130,854
Accrued and other liabilities	13,112	45,780	2,179	3,150	64,221
Due to other governmental units	136,474	-	-	-	136,474
Due to other funds (Note 7)	377,923	-	-	-	377,923
Deferred revenue (Note 6)	106,020	19,244	-	57,737	183,001
Total liabilities	751,872	81,624	40,655	61,126	935,277
Fund Balances					
Reserved for:					
Prepaid insurance policies	114,356	-	-	1,050	115,406
Inventory	6,818	-	-	-	6,818
Unreserved, reported in:					
General Fund	2,767,458	-	-	-	2,767,458
Special Revenue Funds	-	111,158	34,934	170,179	316,271
Total fund balances	<u>2,888,632</u>	<u>111,158</u>	<u>34,934</u>	<u>171,229</u>	<u>3,205,953</u>
Total liabilities and fund balances	<u>\$ 3,640,504</u>	<u>\$ 192,782</u>	<u>\$ 75,589</u>	<u>\$ 232,355</u>	<u>\$ 4,141,230</u>

Charter Township of Mount Morris

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets March 31, 2005

Fund Balance - Total Governmental Funds \$ 3,205,953

Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds 3,823,081

State of Michigan receivable not collected within 60 days of year
end, and is not available to pay for current year expenditures 155,433

Special assessment receivables are expected to be collected over
several years, and are not available to pay for current year
expenditures 31,312

Grant receivables are not expected to be collected within 60 days
of year end, and are not available to pay for current year
expenditures 132,445

Long-term liabilities and accrued interest are not due and payable
in the current period and are not reported in the funds (885,323)

Net Assets - Governmental Activities \$ 6,462,901

Charter Township of Mount Morris

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2005

	General Fund	Police Fund	Fire Fund	Other Governmental Funds	Total Governmental Funds
Revenue					
Property taxes	\$ 1,446,742	\$ 1,281,499	\$ 548,896	\$ 14,893	\$ 3,292,030
Licenses and permits	98,971	-	-	83,450	182,421
Federal grants	13,889	91,553	-	-	105,442
State-shared revenues and state grants	2,457,832	146,833	-	-	2,604,665
Local sources	47,660	-	46,028	-	93,688
Special assessment revenue	261,803	-	-	26	261,829
Charges for services	241,606	-	-	-	241,606
Cable franchise fees	210,455	-	-	-	210,455
Fines and forfeitures	-	132,535	-	-	132,535
Interest and rentals	36,518	-	-	2,776	39,294
Other	(13,304)	73,434	77,688	130,475	268,293
Total revenue	4,802,172	1,725,854	672,612	231,620	7,432,258
Transfers In (Note 7)	-	1,600,000	210,000	152,509	1,962,509
Total revenue and transfers in	4,802,172	3,325,854	882,612	384,129	9,394,767
Expenditures					
Current:					
General government	1,855,090	-	-	-	1,855,090
Police and fire	-	3,460,829	721,733	45,610	4,228,172
Building inspections	-	-	-	243,178	243,178
Public services (roads, street lights, etc.)	422,587	-	-	-	422,587
Community assistance (CDBG and housing)	1,261	-	-	2,204	3,465
Planning and zoning	16,498	-	-	-	16,498
Senior activities	57,041	-	-	-	57,041
Debt service	67,124	-	158,697	37,329	263,150
Total expenditures	2,419,601	3,460,829	880,430	328,321	7,089,181
Transfers Out (Note 7)	1,962,509	-	-	-	1,962,509
Total expenditures and transfers out	4,382,110	3,460,829	880,430	328,321	9,051,690
Net Change in Fund Balances	420,062	(134,975)	2,182	55,808	343,077
Fund Balances - Beginning of year	2,468,570	246,133	32,752	115,421	2,862,876
Fund Balances - End of year	<u>\$ 2,888,632</u>	<u>\$ 111,158</u>	<u>\$ 34,934</u>	<u>\$ 171,229</u>	<u>\$ 3,205,953</u>

Charter Township of Mount Morris

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities Year Ended March 31, 2005

Net Change in Fund Balances - Total Governmental Funds \$ 343,077

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	203,295
Depreciation	(257,177)

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end (10,563)

Grant revenues reported in the statement of activities, when qualifying grant expenditures incurred, did not provide current financial resources in the governmental funds due to not being collected within 60 days of year end 99,512

State-shared revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (14,345)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 192,698

Change in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities (48,579)

Change in Net Assets of Governmental Activities \$ 507,918

Charter Township of Mount Morris

Proprietary Funds Statement of Net Assets March 31, 2005

	Water and Sewer	Refuse Collection	Total
Assets			
Current assets:			
Cash and investments (Note 3)	\$ 5,792,153	\$ 545,383	\$ 6,337,536
Customer receivables	946,860	-	946,860
Due from other funds (Note 7)	-	119,200	119,200
Total current assets	6,739,013	664,583	7,403,596
Noncurrent assets:			
Capital assets (Note 5)	16,066,153	-	16,066,153
Restricted assets - Held at Genesee County (Note 4)	1,039	-	1,039
Total noncurrent assets	16,067,192	-	16,067,192
Total assets	22,806,205	664,583	23,470,788
Liabilities			
Current liabilities:			
Accounts payable	426,239	-	426,239
Accrued and other liabilities	4,918	-	4,918
Due to other funds	77,038	-	77,038
Current portion of long-term debt (Note 8)	528,666	-	528,666
Deferred revenue (Note 6)	-	530,733	530,733
Total current liabilities	1,036,861	530,733	1,567,594
Noncurrent liabilities - Long-term debt - Net of current portion (Note 8)	4,032,332	-	4,032,332
Total liabilities	5,069,193	530,733	5,599,926
Net Assets			
Investment in capital assets - Net of related debt	11,505,155		11,505,155
Restricted for water and sewer construction projects	1,039	-	1,039
Unrestricted	6,230,818	133,850	6,364,668
Total net assets	<u>\$ 17,737,012</u>	<u>\$ 133,850</u>	<u>\$ 17,870,862</u>

Charter Township of Mount Morris

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2005

	Water and Sewer	Refuse Collection	Total
Operating Revenue			
User charges	\$ 2,084,360	\$ 794,553	\$ 2,878,913
Interest and penalty charges	20,753	-	20,753
Other charges for services	72,693	-	72,693
	<hr/>	<hr/>	<hr/>
Total operating revenue	2,177,806	794,553	2,972,359
Operating Expenses			
Cost of water produced/purchased	1,001,770	-	1,001,770
Cost of sewage treatment	761,449	-	761,449
Refuse pickup contract	-	798,549	798,549
Operation and maintenance	78,501	-	78,501
Billing and administrative costs	289,245	-	289,245
Depreciation	330,117	-	330,117
	<hr/>	<hr/>	<hr/>
Total operating expenses	2,461,082	798,549	3,259,631
Operating Loss	(283,276)	(3,996)	(287,272)
Nonoperating Revenue (Expense)			
Investment income	83,542	3,927	87,469
Interest expense	(273,565)	-	(273,565)
	<hr/>	<hr/>	<hr/>
Loss - Before contributions and transfers from other funds	(473,299)	(69)	(473,368)
Capital Contributions - Tap-in fees	64,410	-	64,410
	<hr/>	<hr/>	<hr/>
Change in Net Assets	(408,889)	(69)	(408,958)
Net Assets - Beginning of year	18,145,901	133,919	18,279,820
	<hr/>	<hr/>	<hr/>
Net Assets - End of year	<u><u>\$ 17,737,012</u></u>	<u><u>\$ 133,850</u></u>	<u><u>\$ 17,870,862</u></u>

Charter Township of Mount Morris

Proprietary Funds Statement of Cash Flows Year Ended March 31, 2005

	Water and Sewer	Refuse Collection	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 2,299,303	\$ 794,553	\$ 3,093,856
Payments to suppliers	(1,778,151)	(768,586)	(2,546,737)
Payments to employees	(241,854)	-	(241,854)
Net cash provided by operating activities	279,298	25,967	305,265
Cash Flows from Capital and Related Financing Activities			
Tap-in fees	64,410	-	64,410
Principal and interest paid on capital debt	(803,289)	-	(803,289)
Net cash used in capital and related financing activities	(738,879)	-	(738,879)
Cash Flows from Investing Activities			
Interest received on investments	83,542	3,927	87,469
Investment purchases	(541,004)	-	(541,004)
Net cash provided by (used in) investing activities	(457,462)	3,927	(453,535)
Net Increase (Decrease) in Cash and Cash Equivalents	(917,043)	29,894	(887,149)
Cash and Cash Equivalents - Beginning of year	<u>4,957,957</u>	<u>515,489</u>	<u>5,473,446</u>
Cash and Cash Equivalents - End of year	<u>\$ 4,040,914</u>	<u>\$ 545,383</u>	<u>\$ 4,586,297</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments (Note 3)	\$ 5,792,153	\$ 545,383	\$ 6,337,536
Restricted investments (Note 3)	1,039	-	1,039
Less amounts classified as investments (Note 3)	(1,752,278)	-	(1,752,278)
Total cash and cash equivalents	<u>\$ 4,040,914</u>	<u>\$ 545,383</u>	<u>\$ 4,586,297</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (283,276)	\$ (3,996)	\$ (287,272)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	330,117	-	330,117
Changes in assets and liabilities:			
Receivables	121,497	-	121,497
Accounts payable	(14,932)	-	(14,932)
Due to other funds	122,731	25,316	148,047
Accrued and other liabilities	3,161	4,647	7,808
Net cash provided by operating activities	<u>\$ 279,298</u>	<u>\$ 25,967</u>	<u>\$ 305,265</u>

Noncash Capital and Related Financing Activities - There were no significant noncash investing, capital, or financing activities during the year ended March 31, 2005.

Charter Township of Mount Morris

Fiduciary Funds **Statement of Fiduciary Assets and Liabilities** **March 31, 2005**

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 121,895
Receivables - Other	<u>11,359</u>
Total assets	<u><u>\$ 133,254</u></u>
Liabilities	
Due to other governmental units	\$ 84,122
Accrued and other liabilities	<u>49,132</u>
Total liabilities	<u><u>\$ 133,254</u></u>

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2005

Note I - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Mount Morris (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of Mount Morris:

Reporting Entity

The Charter Township of Mount Morris is governed by an elected seven-member board of trustees. There are no component units that are required to be included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Township (primary government). For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or segment (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Property taxes, licenses, and interest are susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Police Fund - The Police Fund is where the Township accounts for the financial operations of the police department, including a special property tax millage, and federal and state grants that directly benefit and are solely designated for law enforcement activities.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Fire Fund - The Fire Fund is where the Township accounts for the financial operations of the fire department, including a special property tax millage, and federal grants that directly benefit and are solely designated for fire protection.

The Township reports the following major proprietary funds:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system. Funding is provided primarily through user charges.

Refuse Collection Fund - The Refuse Collection Fund is used to account for the activities related to the Township's trash collection. Funding is provided primarily through user charges.

Additionally, the Township reports the following fund types:

Agency Funds - The Agency Funds account for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue - Properties are assessed as of December 31 of each year. The related property taxes are billed and become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township's 2004 tax is levied and collectible on December 1, 2004 and is recognized as revenue in the year ended March 31, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable valuation of the Township totaled \$377 million; the detail of the property tax levy is as follows:

Purpose	Millage	Levy
General operating	3.5400	\$ 1,336,000
Police	3.4301	1,295,000
Fire	1.4700	555,000
Total property taxes		<u>\$ 3,186,000</u>

The delinquent real property taxes of the Township are purchased by Genesee County (the "County"). In approximately April or May, the County Treasurer reimburses the local unit for delinquent real property taxes through the County revolving fund. If delinquent real taxes cannot be collected by the County, the local unit portion of the tax is invoiced or deducted from the monthly County settlement.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General, Fire, Police, Building, Drug, Housing, Hughes 20, and Refuse Funds are generally allocated to each fund using a weighted average.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2005

Note I - Summary of Significant Accounting Policies (Continued)

Restricted Assets - Genesee County acts on behalf of the Township to issue bonds to finance water and sewer lines. Restricted assets represent the monies held by the County that are to be spent on the Township's behalf for water and sewer line construction, or for repayment of the related bonds.

Capital Assets - Capital assets, which include property, plant, and equipment, are infrastructure assets (e.g., bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings	20-50 years
Infrastructure	20-75 years
Land improvements	20 years
Machinery and equipment	5-20 years
Vehicles	8 years

Compensated Absences (Vacation and Sick Leave) - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Township does not have a policy to pay any amounts when employees separate from service with the Township. All vacation pay is accrued when incurred in the government-wide and proprietary fund statements. A liability for these amounts is reported in governmental funds as it comes due for payment (when the time is taken off, or the employee is terminated).

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

State Construction Code Act - The Township oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. The activity related to construction code fees is recorded in a separate fund, the Building Permit Fund.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2005

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated four banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

The Charter Township of Mount Morris' deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

Balance Sheet Classification	Governmental Activities	Business-type Activities	Agency Funds	Total Primary Government
Cash and cash equivalents	\$ 2,266,138	\$ 4,585,258	\$ 121,895	\$ 6,973,291
Investments	-	1,752,278	-	1,752,278
Restricted assets	-	1,039	-	1,039
Bank overdraft	(42,804)	-	-	(42,804)
Total	<u>\$ 2,223,334</u>	<u>\$ 6,338,575</u>	<u>\$ 121,895</u>	<u>\$ 8,683,804</u>

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2005

Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the Charter Township of Mount Morris, Michigan is as follows:

GASB Statement No. 3 Classification	Primary Government
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 8,682,954
Petty cash or cash on hand	850
Total	<u>\$ 8,683,804</u>

Deposits

The bank balance of the Township's primary government deposits is \$8,891,146, of which \$500,000 is covered by federal depository insurance and the remainder is uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Restricted Assets

Restricted assets at March 31, 2005 consist of cash and cash equivalents held at the County. These assets are restricted for construction of the Francis/Webster Roads.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2005

Note 5 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

Governmental Activities	Balance April 1, 2004	Reclassifi- cations	Additions	Disposals	Balance May 31, 2005
Capital assets not being depreciated - Land	\$ 200,324	\$ -	\$ -	\$ -	\$ 200,324
Capital assets being depreciated:					
Buildings	3,574,157	-	-	-	3,574,157
Infrastructure	557,980	-	-	-	557,980
Land improvements	165,690	-	-	-	165,690
Machinery and equipment	248,488	-	143,334	-	391,822
Vehicles	2,243,233	-	59,961	(32,411)	2,270,783
Subtotal	6,789,548	-	203,295	(32,411)	6,960,432
Accumulated depreciation:					
Buildings	1,203,809	-	54,021	-	1,257,830
Infrastructure	394,831	-	19,625	-	414,456
Land improvements	89,780	-	7,166	-	96,946
Machinery and equipment	162,177	-	30,287	-	192,464
Vehicles	1,262,312	-	146,078	(32,411)	1,375,979
Subtotal	3,112,909	-	257,177	(32,411)	3,337,675
Net capital assets being depreciated	3,676,639	-	(53,882)	-	3,622,757
Net capital assets	<u>\$ 3,876,963</u>	<u>\$ -</u>	<u>\$ (53,882)</u>	<u>\$ -</u>	<u>\$ 3,823,081</u>

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2005

Note 5 - Capital Assets (Continued)

A summary of business-type fixed assets at March 31, 2005 was as follows:

Business-type Activities	Balance April 1, 2004	Reclassifi- cations	Additions	Disposals	Balance May 31, 2005
Capital assets being depreciated:					
Sanitary sewer system	\$ 16,521,961	\$ 551,058	\$ -	\$ -	\$ 17,073,019
Water utility system	5,582,961	567,078	-	-	6,150,039
Construction in progress	1,118,136	(1,118,136)	-	-	-
Office equipment	6,166	-	-	-	6,166
Subtotal	23,229,224	-	-	-	23,229,224
Accumulated depreciation:					
Sanitary sewer system	2,517,731	-	102,517	-	2,620,248
Water utility system	4,309,055	-	227,600	-	4,536,655
Office equipment	6,168	-	-	-	6,168
Subtotal	6,832,954	-	330,117	-	7,163,071
Net capital assets	<u>\$ 16,396,270</u>	<u>\$ -</u>	<u>\$ (330,117)</u>	<u>\$ -</u>	<u>\$ 16,066,153</u>

Depreciation was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 37,955
Police	52,170
Fire	137,173
Building inspection	937
Public services	22,597
Senior activities	6,345
Total governmental activities	<u>\$ 257,177</u>
Business-type activities	<u>\$ 330,117</u>

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2005

Note 6 - Deferred Revenue

Statement of Net Assets - On the statement of net assets, the deferred revenue in the governmental activities represents resources that have been received but not yet earned.

Governmental Funds Balance Sheet - Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned	Total
Special assessments	\$ 31,312	\$ -	\$ 31,312
Crime Prevention Grant	-	19,244	19,244
Community Development Block Grant	106,020	-	106,020
Land contract receivable	26,425	-	26,425
Total	<u>\$ 163,757</u>	<u>\$ 19,244</u>	<u>\$ 183,001</u>

In addition, the Refuse Collection Fund reports deferred revenue of \$530,733 related to refuse fees collected in advance of the period to which the service relates.

Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Water and Sewer Fund	\$ 77,038
Police Fund	General Fund	176,674
Fire Fund	General Fund	75,589
Refuse Fund	General Fund	119,200
Hughes 20 Debt Service Fund	General Fund	6,460
Total		<u>\$ 454,961</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2005

Note 7 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Police Fund	\$ 1,600,000
General Fund	Fire Fund	210,000
General Fund	Hughes 20 Debt Service	2,509
General Fund	Building Permits Fund	<u>150,000</u>
Total		<u>\$ 1,962,509</u>

The transfers from the General Fund to the Police Fund, Fire Fund, Hughes 20 Debt Service Fund, and Building Permits Fund were to assist in paying salary expenses, debt, and other needed appropriations.

Note 8 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2005

Note 8 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
County Contract Obligations:						
Hughes 20 Drainage District Bonds:						
Amount of issue: \$127,560	6.75%	\$25,512	\$ 127,560	\$ (25,512)	\$ 102,048	\$ 25,512
Maturing through 2009						
Hughes 20 Drainage Township Share Bonds:						
Amount of issue - \$14,173	6.75%	\$2,835	14,173	(2,835)	11,338	2,835
Maturing through 2009						
General Obligations:						
Fire Truck #1 Bond:						
Amount of issue - \$386,940	5.00%	\$36,234-	350,706	(74,592)	276,114	76,218
Maturing through 2008		\$80,736				
Fire Truck #2 Bond:						
Amount of issue - \$140,000	5.00%	\$70,000	140,000	(70,000)	70,000	70,000
Maturing through 2006						
Lease Purchase Agreement - Maturing through 2004	5.95%	\$7,226	7,226	(7,226)	-	-
Installment Purchase Agreement - Maturing through 2004	6.44%	\$3,792	3,792	(3,792)	-	-
Special Assessment Obligation Bonds: (2)						
Project #433 Bond:						
Amount of issue - \$9,372	5.08%	\$2,343	9,372	(2,343)	7,029	2,344
Maturing through 2008						
Project #435 Bond:	5.08%					
Amount of issue - \$13,638		\$3,410	13,638	(3,410)	10,228	3,410
Maturing through 2008						
Project #436 Bond:	5.09%					
Amount of issue - \$14,938		\$2,988	14,938	(2,988)	11,950	2,988
Maturing through 2009						
Other Long-term obligations:						
Accumulated employee benefits (1)			241,308	48,579	289,887	289,887
Michigan Tax Tribunals (Note 13)			106,729	-	106,729	-
Total governmental activities			1,029,442	(144,119)	885,323	473,194

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2005

Note 8 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Business Type Activities (3)						
Genessee County Sanitary Sewage System Bonds:						
1999 Sewer Extension Bonds:						
Amount of issue - \$3,800,000	4.95%	\$150,000-	\$ 3,350,000	\$ (150,000)	\$ 3,200,000	\$ 150,000
Maturing through 2019	5.70%	\$300,000				
#1 Mount Morris Arm Bond:						
Amount of issue - \$825,000	5.00%	\$275,000	825,000	(275,000)	550,000	275,000
Maturing through 2007						
#2 Southeast Extension Bond:						
Amount of issue - \$14,664	4.00%	\$3,666	15,722	(4,724)	10,998	3,666
Maturing through 2008	4.45%					
Genessee County Sewage Disposal System Bonds:						
1996 Sewage Disposal Bonds:						
Amount of issue - \$900,000	0.05%	\$100,000-				
Maturing through 2012		\$150,000	900,000	(100,000)	800,000	100,000
Total business-type activities			5,090,722	(529,724)	4,560,998	528,666
Total business-type and governmental activities			\$ 6,120,164	\$ (673,843)	\$ 5,446,321	\$ 1,001,860

- (1) Accumulated employee benefits represent the estimated liability to be paid to governmental fund-type employees under the Township's sick and vacation pay policy. Under the Township's policy, employees earn sick and vacation time based on time of service with the Township.
- (2) The special assessment bonds represent the financing of public improvements that benefit specific districts; these districts are specially assessed, at least in part, for the cost of improvements. At March 31, 2005, the Township has approximately \$31,300 of special assessments receivable in the Hughes 20 Special Assessment Debt Service Fund for repayment of these bonds. These special assessments receivable are due in the future; the amount of receivables delinquent at March 31, 2005 is not significant. Under Michigan law, the Township is secondarily liable for payment of these bonds.
- (3) The Township has pledged its full faith and credit as collateral for the water and sewer county contract obligations.

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 183,306	\$ 9,344	\$ 192,650	\$ 528,666	\$ 245,734	\$ 774,400
2007	115,534	6,454	121,988	553,666	208,590	762,256
2008	117,824	3,501	121,325	278,666	186,370	465,036
2009	72,043	630	72,673	300,000	172,562	472,562
2010	-	-	-	325,000	157,462	482,462
2011-2015	-	-	-	1,450,000	536,938	1,986,938
2016-2019	-	-	-	1,125,000	164,776	1,289,776
Total	\$ 488,707	\$ 19,929	\$ 508,636	\$ 4,560,998	\$ 1,672,432	\$ 6,233,430

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2005

Note 9 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefit claims, and participates in the Michigan Municipal League risk pool program for claims relating to workers' compensation, and in the Michigan Townships Participating Plan for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

Note 10 - Defined Benefit Pension Plan

Plan Description

The Township participates in the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the Township. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Township's competitive bargaining units and requires no contribution from the employees.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2005

Note 10 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost

For the year ended March 31, 2005, the Township's annual pension cost of \$505,820 for the plan was equal to the Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003 and 2002, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 4.16 percent per year, depending on age, attributable to seniority/merit, and (d) postretirement benefit increases of 2.5 percent annually. The actuarial value of assets is determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The unfunded actuarial liability is being amortized as a level of percentage of payroll over a period of 30 years.

Three-year Trend Information

	Fiscal Year Ended March 31		
	2003	2004	2005
Annual pension costs (APC)	\$ 363,195	\$ 411,400	\$ 505,820
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	Valuation as of December 31		
	2001	2002	2003
Actuarial value of assets	\$ 9,903,168	\$ 10,111,686	\$ 10,779,206
Actuarial accrued liability (AAL)	\$ 11,969,699	\$ 13,196,788	\$ 14,859,961
Unfunded AAL (UAAL)	\$ 2,066,531	\$ 3,085,102	\$ 4,080,755
Funded ratio	83%	77%	73%
Covered payroll	\$ 2,677,951	\$ 2,757,073	\$ 2,968,677
UAAL as a percent of covered payroll	77%	112%	137%

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2005

Note 11 - Other Postemployment Benefits

The Township has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The Township pays the full cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the Township's group rates. Currently, 25 retirees are eligible for postemployment health benefits. For the fiscal year ended March 31, 2005, the Township made payments for postemployment health benefit premiums of \$220,800. The Township obtains health care coverage through private insurers.

Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions).

The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending March 31, 2010.

Note 12 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Township has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). In the prior year, the Township implemented portions of GASB No. 34. As of April 1, 2004, the Township has fully implemented both the general provisions of the statement and the retroactive reporting of the infrastructure. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Township's activities
- Capital assets in the statement of net assets totaling approximately \$6.2 million that would previously have been reported in the General Fixed Assets Account Group.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2005

Note 12 - Accounting and Reporting Change (Continued)

- The governmental activities column includes bonds and other long-term obligations totaling \$885,000 previously reported in the General Long-term Debt Account Group.

Note 13 - Personal Property Tax Multipliers

In November 1999, the State Tax Commission approved revised personal property tax tables for utilities. The revised tables affected taxes collected from 1997 to present due to local units of government continuing to use the personal property tax tables in effect prior to 1999. The issue was the subject of a lawsuit brought by several units of government against the State Tax Commission challenging the constitutionality of the new utility personal property tax tables. In April 2002, the revised tables were upheld by the court.

During 2003, the tax tables were again upheld on appeal. The amounts paid to the Township in excess of the approved amounts using the new tables would potentially need to be refunded to the utility companies. This could result in refunds of approximately \$106,729 in the governmental funds. Of this refund, \$29,229 would come from the General Fund, \$28,702 from the Police Fund, \$5,742 from the Fire Fund, and \$43,056 from the General Debt Service Fund or Water and Sewer Fund. Appeals are still being undertaken by taxing and the matter is not expected to be settled in the next fiscal year. Therefore, the potential refund related to the governmental funds has been disclosed in the long-term debt footnote as a long-term liability within the governmental activities.

Required Supplemental Information

Charter Township of Mount Morris

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues				
Property taxes	\$ 980,000	\$ 1,305,000	\$ 1,446,742	\$ 141,742
Licenses and permits	32,600	32,600	98,971	66,371
Federal grants	39,253	39,253	13,889	(25,364)
State-shared revenues and grants	2,185,000	2,185,000	2,457,832	272,832
Local sources	180,000	180,000	47,660	(132,340)
Special assessment revenue	244,000	244,000	261,803	17,803
Charges for services	330,000	330,000	241,606	(88,394)
Cable franchise fees	125,000	125,000	210,455	85,455
Interest and rentals	35,000	36,000	36,518	518
Other	85,000	85,000	(13,304)	(98,304)
Transfer from other funds	167,000	-	-	-
Total revenues	4,402,853	4,561,853	4,802,172	240,319
Expenditures				
Current:				
General government	2,014,205	2,054,000	1,855,090	198,910
Public services (roads, street lights, etc.)	337,000	337,000	316,567	20,433
Community assistance (CDBG and housing)	19,253	22,253	1,261	20,992
Planning and zoning	14,190	14,190	16,498	(2,308)
Senior activities	60,000	60,000	57,041	2,959
Debt service	100,000	100,000	173,144	(73,144)
Transfers to other funds	1,859,205	1,960,000	1,962,509	(2,509)
Total expenditures	4,403,853	4,547,443	4,382,110	165,333
Surplus (Shortfall)	\$ (1,000)	\$ 14,410	\$ 420,062	\$ 405,652

Charter Township of Mount Morris

Required Supplemental Information Budgetary Comparison Schedule Police Fund Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues				
Property taxes	\$ 1,255,000	\$ 1,255,000	\$ 1,281,499	\$ 26,499
Federal grants	42,000	42,000	91,553	49,553
State grants	102,000	102,000	146,833	44,833
Fines and forfeitures	112,130	112,130	132,535	20,405
Other	34,500	34,500	73,434	38,934
Transfer from other funds	<u>1,754,205</u>	<u>1,600,000</u>	<u>1,600,000</u>	<u>-</u>
Total revenues	3,299,835	3,145,630	3,325,854	180,224
Expenditures - Current - Public safety	<u>3,336,429</u>	<u>3,437,750</u>	<u>3,460,829</u>	<u>(23,079)</u>
Shortfall	<u>\$ (36,594)</u>	<u>\$ (292,120)</u>	<u>\$ (134,975)</u>	<u>\$ 157,145</u>

Charter Township of Mount Morris

Required Supplemental Information Budgetary Comparison Schedule Fire Fund Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues				
Property taxes	\$ 576,000	\$ 576,000	\$ 548,896	\$ (27,104)
Local sources	21,000	21,000	46,028	25,028
Fines and forfeitures	10,000	10,000	-	(10,000)
Other	78,000	78,000	77,688	(312)
Transfer from other funds	<u>202,570</u>	<u>202,570</u>	<u>210,000</u>	<u>7,430</u>
Total revenues	887,570	887,570	882,612	(4,958)
Expenditures				
Current - Public safety	720,570	720,670	721,733	(1,063)
Debt service	<u>167,000</u>	<u>166,900</u>	<u>158,697</u>	<u>8,203</u>
Total expenditures	<u>887,570</u>	<u>887,570</u>	<u>880,430</u>	<u>7,140</u>
Surplus	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,182</u>	<u>\$ 2,182</u>

Charter Township of Mount Morris

Note to Required Supplemental Information March 31, 2005

Note - Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)." All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. The annual budget is prepared by the Township supervisor and adopted by the Township board. During the year, the budget was amended in a legally permissible manner.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The budget process is initiated in December. At that time, departments are given prior and current year budget information to review. The budget form includes areas for potential budget suggestions. Once each department completes the forms, they are resubmitted to the Township supervisor to review with each department head. The budget is submitted to the Township board in February by the Township supervisor. After a public hearing, the final budget is adopted by a Township board resolution no later than March 31.
2. The legislative budget is adopted by department and fund on an activity basis. Line item detail is provided as a general guideline. Throughout the year, the board receives requests to amend the activity budget. All amendments must be approved by a vote of the Township board.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Charter Township of Mount Morris incurred expenditures that were significantly in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund - Debt Service	\$ 100,000	\$ 173,144
General Fund - Public Safety	3,437,750	3,460,829

Expenditures for General Fund debt service payments exceeded budget due to the required debt payments exceeding the amount that the Township had budgeted in the current year for debt service. Expenditures for the Police Fund public safety exceeded budget mainly due to unanticipated retirement benefit payments and additional equipment purchases.

Budgeted Fund Deficits - The Police Fund had budgeted for a fund deficit at March 31, 2005. As of June 30, 2005, the actual results of the Police Fund did not result in a deficit.

Other Supplemental Information

Charter Township of Mount Morris

		Special Revenue Funds		
		Housing Commission	Building Permits	Drug Law Enforcement
Assets				
Cash and investments	\$	66,780	\$ 27,571	\$ 79,217
Receivables - Net		26,425	-	-
Prepaid costs and other assets		1,050	-	-
Due from other funds		-	-	-
Total assets	\$	<u>94,255</u>	<u>27,571</u>	<u>79,217</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$	-	\$ 239	\$ -
Accrued and other liabilities		-	3,150	-
Deferred revenue		26,425	-	-
Total liabilities		26,425	3,389	-
Fund Balances				
Reserved for prepaid insurance policies		1,050	-	-
Unreserved		66,780	24,182	79,217
Total fund balances		67,830	24,182	79,217
Total liabilities and fund balances	\$	<u>94,255</u>	<u>27,571</u>	<u>79,217</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
March 31, 2005**

Debt Service Funds		Total Nonmajor Governmental Funds
<u>Hughes 20 Debt Service</u>		<u></u>
\$ (34,807)	\$	138,761
31,312		57,737
28,347		29,397
<u>6,460</u>		<u>6,460</u>
<u>\$ 31,312</u>	\$	<u>232,355</u>
\$ -	\$	239
-		3,150
<u>31,312</u>		<u>57,737</u>
31,312		61,126
-		1,050
<u>-</u>		<u>170,179</u>
-		171,229
<u>\$ 31,312</u>	\$	<u>232,355</u>

Charter Township of Mount Morris

	Special Revenue Funds		
	Housing Commission	Building Permits	Drug Law Enforcement
Revenue			
Property taxes	\$ -	\$ -	\$ -
Interest income	2,776	-	-
Licenses and permits	-	83,450	-
Special assessments	-	-	-
Other	24,967	735	104,366
Total revenue	27,743	84,185	104,366
Expenditures			
Current:			
Public safety department	-	-	45,610
Public works department	2,204	243,178	-
Debt service	-	-	-
Total expenditures	2,204	243,178	45,610
Excess of Revenue Over (Under)			
Expenditures	25,539	(158,993)	58,756
Other Financing Sources - Transfers in	-	150,000	-
Net Change in Fund Balances	25,539	(8,993)	58,756
Fund Balances - Beginning of year	42,291	33,175	20,461
Fund Balances - End of year	\$ 67,830	\$ 24,182	\$ 79,217

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended March 31, 2005

Debt Service Funds	Total Nonmajor Governmental Funds
\$ 14,893	\$ 14,893
	2,776
-	83,450
26	26
<u>407</u>	<u>130,475</u>
15,326	231,620
-	45,610
-	245,382
<u>37,329</u>	<u>37,329</u>
<u>37,329</u>	<u>328,321</u>
(22,003)	(96,701)
<u>2,509</u>	<u>152,509</u>
(19,494)	55,808
<u>19,494</u>	<u>115,421</u>
<u><u>\$ -</u></u>	<u><u>\$ 171,229</u></u>

Charter Township of Mount Morris

Other Supplemental Information Combining Statement of Assets and Liabilities Fiduciary Funds March 31, 2005

	Tax Collection Fund	Trust and Agency Fund	Totals
Assets			
Cash and cash equivalents	\$ 15,684	\$ 106,211	\$ 121,895
Receivables	<u>11,359</u>	<u>-</u>	<u>11,359</u>
Total assets	<u>\$ 27,043</u>	<u>\$ 106,211</u>	<u>\$ 133,254</u>
Liabilities			
Accrued and other liabilities	\$ (36)	\$ 49,168	\$ 49,132
Due to other governmental units	<u>27,079</u>	<u>57,043</u>	<u>84,122</u>
Total liabilities	<u>\$ 27,043</u>	<u>\$ 106,211</u>	<u>\$ 133,254</u>

July 27, 2005

Township Board
Charter Township of Mt. Morris
5447 Bicentennial Drive
Mt. Morris, Michigan, 48458

Dear Board Members:

We recently completed our audit of the general purpose financial statements of the Charter Township of Mt. Morris for the year ended March 31, 2005. As a result of our audit, we have the following comments and recommendations for your review and consideration.

NEW FINANCIAL REPORTING MODEL

During the prior year, a new accounting pronouncement became effective – Governmental Accounting Standards Board Statement Number 34 (GASB 34). Due to the Township concentrating its efforts on improving the conditions of the accounting records and controls and having to accommodate key staff turnover during the prior year, the Township elected only to implement those portions of GASB 34 that were required by the State of Michigan. During the current fiscal year, the Township fully implemented GASB 34, which included restating the Township's financial information as of April 1, 2004. The expected benefits of the new model include improved comparability of financial statements between communities, and a better matching of the current year's revenue sources to the full cost of services provided during that year.

Some of the changes in the model include the following:

- A "Management's Discussion and Analysis" section
- Entity-wide financial statements (balance sheet and operating statements) prepared on a full accrual basis.
- Capital assets and their related depreciation will be reported.

We would like to commend the township on adopting this new pronouncement as it was quite an effort for the Township's personnel. This adoption allows the Township to again obtain an unqualified opinion on its financial statements.

FINANCIAL RESULTS

For the year ended March 31, 2005, the Township's General Fund fund balance was increased by approximately \$420,062. Overall, revenues increased approximately \$284,000 from the prior year and the Township was able to decrease expenditures from 2004 to 2005 by approximately \$198,350 as well as decreasing net transfers out to other funds by approximately \$168,300. The Township was able to increase revenue even while state shared revenue decreased another 2.4% from 2004 levels, mainly due to an increase in property tax revenue of approximately 14% due to the Township eliminating its 2.50 mill debt levy at December 1, 2004 and replacing it with a 1.00 mill increase in the general operating millage levy. Overall, millage change served to reduce the overall mill levy to those property owners not included in the Beecher Metropolitan District. At the same time, this task significantly served to improve the General Fund's revenue. In addition, the Township was able to decrease expenditures even while health care costs continued to rise by mainly salary decreases due to Township staff turnover without replacement of certain positions. So far, the Township has been able to weather the economic downturn over the past few years due to the Township having a healthy fund balance which was built up in years of good economic growth, and implementing an internal process of evaluating expenditures, eliminating certain expenditures in order to combat the decreasing revenue streams, and the ability to still increase the General Fund operating mill levy.

This year's positive financial results are the result of a strong effort by Township personnel. The results are impressive, but we expect a continuation of financial pressures, as health care costs continue to rise and state shared revenue remains weak.

We would strongly encourage the Township to consider taking its financial planning one step further (from both an operational and capital perspective) over a multi-year period. The Township should continually review its long range financial plans through the use of a five year plan model in order to ensure continued financial viability over the long-run in this uncertain municipal environment.

RETIREE HEALTH CARE FUNDING

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Post employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post employment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government wide financial statements, rather than the individual fund level. As a result, you will not need to change your budgeting practices.

However, the new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government wide statement of net assets. We anticipate that this will result in a significant pressure to fund the actuarially recommended contribution on an annual basis.

RETIREE HEALTH CARE FUNDING (continued)

This statement will be effective for the Township's 2009 fiscal year. The requirement for a valuation allows for an internal valuation to be performed (without the need to hire an actuary) if you have less than 100 total participants (defined as the sum of retirees currently receiving benefits, plus terminated employees who are eligible to receive in the future, plus current employees for which you have offered retiree health care). If you do hire a professional actuary, we remind you that it generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the 2009 budget.

CONDITION OF ACCOUNTING RECORDS AND CONTROLS

We would like to commend the Township for continuing to improve and maintain an improved system of its accounting controls and procedures during the year ending March 31, 2005. The Township has maintained and improved the internal process of the Water and Sewer reconciliation, payroll documentation and authorization, credit card usage, cash disbursements, bank reconciliations, and the implementation of GASB 34. The Township's concentrated effort to improve the cash disbursement process and the bank reconciliations process during the year ended March 31, 2005 allowed the Township to remove these procedures from being significant deficiencies within the operations of the Township's internal control structure and are no longer required to be reported as reportable conditions within the Township. These improved processes served to further strengthen the Township's internal control structure.

However, the interfund reconciliation process during the current year must be reported as a reportable condition. The Township has several funds that are used to record the many activities that the Township is involved in (for example, the General Fund, the Water Fund, Police Fund, Fire Fund, etc.). Through the course of normal operations, "interfund" receivables and payables are created between the various funds. Due to the interfunds being unreconciled at year end and the client having to work to reconcile them within an immaterial amount, we believe this to be a significant deficiency in the design or operation of the internal control structure and it could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial statements. We would suggest that the Township reconcile and potentially settle the amount of receivables and payables between funds on a monthly basis. We strongly believe once the interfund reconciliation process is improved and with continued maintenance in the improved internal control structure processes, the reported deficiency could be removed next fiscal year.

Bank Reconciliations and Cash Disbursements

As mentioned above, the Township has improved their bank reconciliations process and cash disbursement process to a level where the processes are no longer considered reportable conditions. However, we encourage the Township to enhance its internal controls even further by ensuring that bank reconciliations are dated and initialed by the reviewer of the bank reconciliations. In addition, the Township could further improve its cash disbursement process by consistent indication on the invoices of administrative approval for payment. While we do understand that the Township Board approves all payments, strong internal controls require that personnel most familiar with the service provided review and approve such invoices for payments. The individual responsible for approving disbursements, typically a department head or other authorized individual with knowledge of the Township's activities, should document approval for payment on the invoices prior to the disbursement occurring. The individual responsible for making the payments should not process invoices that have not been administratively approved for payment.

CONDITION OF ACCOUNTING RECORDS AND CONTROLS (continued)

Bid Approval Process

During our testing and review of the Township's bid procedures, we noted that the Township's bid procedures currently state that all expenditures over \$1,000 require bid approval. Per our testing, we noted that this dollar amount is not being enforced as expenditures that require bid approval. In addition, it was noted that the lowest bidder was not always selected as the provider of the work as would be required by the Township's bid procedures. We would encourage the Township to consider if the \$1,000 bid procedure threshold is still an appropriate level. In addition, the Township should maintain a board approved explanation of the reason the lowest bidder was not selected within the Township's bid records.

Internal Control Considerations

During the current year, we were again required to perform the extra inquiries and testing required by the Statement on Auditing Standards Number 99 (SAS 99) entitled *Consideration of Fraud in a Financial Statement*. The Board should be pleased to note our testing did not reveal any material weaknesses not already addressed by the Township. However, we did note the following items that might be worth giving further consideration to:

- As noted in the prior year, the Township's manual journal entries put into the system do not include a detailed journal entry description of the reason for the journal entry. We suggest that for each manual journal entry entered into the system an appropriate description accompanies that entry. This will help to avoid having to go to manual source documentation to support the entry.
- During our review of the accounts payable system, it was noted again in the current year that the vendor listing is not reviewed and there are not specific individuals designated to enter new vendors. The Township should consider reviewing and designating an individual to authorize new vendors. These enhanced procedures will serve to ensure every vendor has only one vendor number and each vendor is an authorized vendor.
- The Township should continue to consider separating duties between the individual that collects cash in the Treasurer's office from the individual that balances the drawer at the end of each day. Since there are two cashiers, perhaps each could use a separate drawer, and then each one could perform the balancing procedure for the other person's cash drawer. This separation of duty will serve to enhance internal controls over cash receipts system.
- The Township may want to ensure that budget to actual financial reports are prepared and distributed to the Board on a quarterly basis in accordance with Charter Township legislation.
- It was noted that not all department software systems that interface with the General Ledger are taking full advantage of the interfacing capabilities. The Township may want to ensure it is using its software system to its fullest capacity by ensuring that departments are automatically getting data into the general ledger through the interfacing capability versus the use of manual journal entries. This would serve to further improve internal controls and timely communication of financial data, and help to improve efficiency of all employee time.
- The Township may want to ensure ACH procedures within the Township are in compliance with the newly board implemented ACH policy.

STATE SHARED REVENUE

State shared revenue accounts for approximately 50% of the Township's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems, which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contained a provision to not pay counties statutory revenue sharing. Instead, beginning in 2005, the counties will change their property tax levy date for their operating millage from December to July. A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. In February of 2005, the Governor's Executive order indicated that no further cuts to revenue sharing would take place for the State's fiscal year 2004/2005.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$773 million shortfall exists for the State's 2005/2006 fiscal year budget. Also, during February 2005, the Governor announced that revenue sharing is budgeted at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. However, as part of recent budget negotiations on the State's 2005/2006 budget, another reduction to state shared revenue has been proposed by the Senate. Negotiations between both branches of the Michigan Legislature and the Governor are likely to continue through the summer and not conclude until the fall with unknown results. Accordingly, we continue to urge the Township to be very conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable and the threat to the elimination of statutory revenue sharing remains.

The following table details actual state shared revenue for the Township since 2001 in comparison to state shared revenue if the revenue payments would have increased at the rate of inflation. In addition, the table details the cumulative revenue lost by the Township as a result of not receiving state shared revenue payments consistent with annual increases in inflation since 2001.

Township Fiscal Year Ending March 31	Actual Revenue Sharing	Revenue Sharing if Township Received Inflationary Increases	Cumulative Lost Revenue Sharing Payments
2001	\$2,882,418	\$2,882,418	-
2002	\$2,751,836	\$2,974,655	\$222,819
2003	\$2,576,060	\$3,019,275	\$666,034
2004	\$2,442,191	\$3,088,718	\$1,312,561
2005 – Estimate	\$2,383,245	\$3,159,758	\$2,089,074

We will continue to update the Township as developments occur.

CLOSING

We would like to thank you and your staff for the courtesy and cooperation extended to us during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Joseph C. Heffernan



Kathryn J. Kercorian